No. 84-1995

Supreme Court, U.S.
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ALEXANDER L. STEVAS

IN THE

Supreme Court of the United States

OCTOBER TERM, 1985

SMITH INTERNATIONAL, INC.,

Petitioner,

v.

HUGHES TOOL COMPANY

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

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COUNTERSTATEMENT OF THE QUESTIONS PRESENTED

1. Were the courts below correct in applying the doctrine of law of the case to foreclose renewal of an admitted infringer's contention that a patent, held valid and enforceable by a final judgment of the Ninth Circuit Court of Appeals, was in fact void and unenforceable by reason of alleged fraud by the patentee on the Patent Office, where the same ground was previously asserted by the same infringer before the trial court and the Ninth Circuit as a basis for holding the patent in suit invalid?

2. Is it within a district court's discretion to use by analogy the "newly discovered" evidence standard of Rule 60(b)(2), Fed. R. Civ. P., in determining whether, factually, there was "substantially different" evidence justifying an exception to the law of the case doctrine?

RULE 28 STATEMENT

Respondent, Hughes Tool Company has the following affiliates, other than wholly-owned subsidiaries: Hughes Tool Company, C.A., Venezuela; Hughes WKM do Brasil Equipamentos Industriais LTDA, Brazil; Alea Company, Limited, Nigeria; APSCO (Asia) Ptd. Limited, Singapore; Associated Petroleum Supply (Hong Kong) Limited; Brown-Foraid Oil Tools U.A.E., Ltd., Bermuda; and Brown Oil Tools de France S.A.R.L., France.

TABLE OF CONTENTS

	PAGE
COUNTERSTATEMENT OF THE QUESTIONS PRESENTED	i
RULE 28 STATEMENT	ii
TABLE OF CONTENTS	iii
TABLE OF AUTHORITIES	iv
STATEMENT OF THE CASE	1
REASONS WHY THE WRIT SHOULD BE DENIED.	6

TABLE OF AUTHORITIES

PAGE

CASES

Central Soya Co. v. Geo. A. Hormel & Co., 723 F.2d 1573 (Fed. Cir. 1983) 4

Environmental Designs, Ltd. v. Union Oil Company of California, 713 F.2d 693 (Fed. Cir. 1983) 7

Mercoid Corp. v. Mid-Continent Investment Co., 320 U.S. 661 (1944) 9

Mutual Life Insurance Co. v. Hill, 193 U.S. 551 (1904) 6-7

Smith International Inc. v. Hughes Tool Company, 664 F.2d 1373 (9th Cir. 1982) 2

Smith International, Inc. v. Hughes Tool Company, 718 F.2d 1573 (Fed. Cir. 1983) 3

Smith International, Inc. v. Hughes Tool Company, 759 F.2d 1572 (Fed. Cir. 1985) 4, 5, 6, 7, 8

STATUTES

28 U.S.C. § 1292 8

35 U.S.C. § 102 1

35 U.S.C. § 103 1

35 U.S.C. § 112 1

35 U.S.C. § 282 7

RULES

Fed. R. Civ. P. 60 ..... 3, 5, 8

Fed. R. Civ. P. 65 2

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STATEMENT OF THE CASE

This is a patent infringement case. The petition seeks review of the affirmance, by the United States Court of Appeals for the Federal Circuit, of the successive denials by the district court of motions to dissolve an injunction against further patent infringement. The injunction had been entered in accordance with the mandate of the Federal Circuit in an earlier appeal.

The Petitioner, Smith International, Inc. brought this suit in 1972 as a declaratory judgment seeking to invalidate Hughes Tool Company's patent on an invention for an oil well rock bit. In the pretrial pleadings Smith admitted its infringement of the patent but alleged that the patent was invalid, asserting the three principal patent validity defenses: lack of novelty (35 U.S.C. § 102); absence of "non-obviousness" (35 U.S.C. § 103); and failure to comport with statutory disclosure requirements (35 U.S.C. § 112). Smith also pleaded invalidity on the grounds that the patent was obtained by fraud on the Patent Office. Discovery and trial were had on all four defenses. In

1979, two years after the trial, the District Court adopted verbatim all of Smith's proposed findings of fact and conclusions of law except two conclusions. It rejected the invalidity defense of fraud in the Patent Office and the prayer for an award of attorney fees.

Hughes appealed the holding of invalidity to the Ninth Circuit Court of Appeals. Smith contended that the patent was invalid on the three grounds found by the District Court, as well as on the rejected ground of fraud on the Patent Office. It urged in its brief:

> While the district court did not hold the seal ('928) patent invalid on the basis of those findings. . . , it is submitted that this Court should do so on the separate ground of fraud on the Patent Office. (P 4; Brief For Appellee at 45).

The Ninth Circuit reversed, explicitly declared the patent to be valid, and "remanded for further proceedings on the counterclaim" (A 40; 664 F.2d at 1377). In holding the patent valid, there was no specific discussion of the invalidity defense of fraud on the Patent Office in the court's opinion. Subsequently Smith filed a Petition for Rehearing to the Ninth Circuit and a Petition for Certiorari to this Court, both of which were denied. Smith did not mention the fraud defense or its treatment by the Ninth Circuit in either petition.

On remand, Hughes moved for an injunction against further infringement. Smith then contended for the first time that it had not infringed. It also argued that there had been no determination of infringement, and, in any event, the scope of its admission of infringement was too general to meet the specificity requirements for injunctive relief under Federal Rule of Civil Procedure 65(d). The district court specifically rejected Smith's argument that infringement had not been determined but agreed that the specificity requirements of Rule 65(d) had not been met and accordingly denied the injunction. Smith did not raise the fraud issue.

Hughes appealed to the newly created Federal Circuit. It reversed. Weighing heavily in its decision were the facts that "the validity of the Hughes patents has been adjudicated by a competent appellate court, which we assume considered all possible grounds for invalidating the patents, and yet rejected them all" (A 61; 718 F.2d at 1579) and that "the Ninth Circuit Court's decision removed any questions about the validity and enforceability of the patents". (A 62; 718 F.2d at 1580). As below, Smith did not raise the fraud issue. The Federal Circuit mandated the entry of an injunction. (A 66; 718 F.2d at 1582).

On remand, the District Court entered the injunction. Two months later, Smith moved to dissolve it, reasserting fraud in the Patent Office and contending that the Ninth Circuit had not decided that issue. The district court denied the motion holding that the Ninth Circuit, in deciding the patent was valid, had by necessary implication considered and rejected the fraud defense. It further held that Smith had not presented any new evidence to justify departing from the mandates of the Ninth and Federal Circuits. The Court then concluded:

> At some point in this lawsuit the seemingly endless processing of legal argument to achieve a deadlock must stop. . . . As Justice Story once observed, lawsuits should not be immortal while men are mortal. *Ocean Ins. Co. v. Fields*, 18 F.Cas. 532, 539 (No. 10,406) (C.C.D. Mass. 1841). (A 74-75).

Smith noticed an appeal, but while it was pending, filed another motion in the district court again seeking to dissolve the injunction. In this motion, Smith contended that it had new evidence of fraud in the Patent Office. After briefing and two days of testimony, the district court denied the motion concluding:

> I think the decision of the Ninth Circuit . . . as interpreted by the Federal Circuit is that this issue is foreclosed and what you have got doesn't amount to newly discovered evidence within the analogy of Rule 60 . . . (A 80).

Smith filed another appeal which was subsequently consolidated with the pending appeal from the denial of the first dissolution motion.

The Federal Circuit affirmed both orders. In its decision the Court first observed that it is doubtful whether the district court had any authority to dissolve the injunction entered in compliance with the mandate, but in order to expedite this protracted litigation, it pretermitted that issue and decided the appeal on the merits. It held that the doctrine of law of the case applies unless one of three "exceptional circumstances" exists: "the evidence on a subsequent trial was substantially different, controlling authority has since made a contrary decision of the law applicable to such issues, or the decision was clearly erroneous and would work a manifest injustice." (A 7; 759 F.2d at 1576, *citing, Central Soya v. Geo. A. Hormel & Company,* 723 F.2d 1573, 1580 (Fed. Cir. 1983)).

Each of the issues now raised by Smith in its Petition was raised in and answered by the Federal Circuit.

To Smith's suggestion that an allegation of fraud in the Patent Office should be an exception to the law of the case doctrine the Court responded:

> We reject the suggestion. The law-of-the-case doctrine rests upon weighty considerations of sound judicial administration, and its application should not and cannot depend upon the nature of the issue that a party seeks to relitigate. (A 11; 759 F.2d at 1578).

On the question of whether the fraud issue had been decided by clear implication, the court held that it had:

> In order to hold the patent valid, as it did, the Ninth Circuit necessarily must have rejected all the grounds upon which Smith challenged validity and sought to uphold the contrary decision of the district court. One of those grounds was that in obtaining the patent Hughes committed fraud before the Patent Office. Although the law-of-the-case doctrine "applies only to issues that were

> decided in the former proceeding but not to questions which might have been decided but were not," it " 'comprehends things *decided by necessary implication* as well as those decided explicitly.' *Morrow v. Dillard*, 580 F.2d 1284, 1290 (5th Cir., 1978)." (A 8; 759 F.2d at 1577).

Finally, the Court rejected Smith's argument that it was improper to apply by analogy the "new evidence" standard of Rule 60(b) in determining whether there were "substantially different evidence" justifying an exception to the law of the case doctrine.

> . . . The law-of-the-case doctrine is designed to 'provide finality to judicial decisions.' *Supra*, p. 1576. It thus serves the same objective as the 'newly discovered' requirement in Rule 60(b)(2).
>
> Smith has offered no convincing policy reasons for rejecting the district court's view of the requirements of the 'substantially different' evidence exception to the law of the case, and we cannot discern any. . . . In this case, Smith is seeking to reopen factual issues finally laid to rest by the Ninth Circuit in 1982 on the basis of evidence it could have discovered with due diligence at least by the time of trial of this case in 1977. The district court was fully justified in rejecting this attempt. (A 13; 759 F.2d at 1579).

On August 20 of this year the seventeen year term of the '928 patent expires.

REASONS WHY THE WRIT SHOULD BE DENIED

The only thing exceptional about the Petition is Smith's persistence in attempting to relitigate issues long since tried and decided.

No issue of general importance or interest is presented. Indeed the only issue raised is whether this litigant, under the particular facts of this case, should be given a second opportunity to attack the validity of Hughes '928 patent. That issue has been thoroughly reviewed and decided by the Federal Circuit Court of Appeals and two district court judges. No purpose, other than Smith's, would be served by further review by this Court. Nor is there any conflict between the decision below and decisions of this Court or any of the courts of appeals.

The first reason advanced (p. 11) by Smith for granting a writ of certiorari is that "the Court below improperly held that the Ninth Circuit's decision was law of the case on fraud. . . ." On its face, this is a purely factual issue, i.e., did the Ninth Circuit, or did it not, decide the fraud issue in *Smith v. Hughes*? Moreover, the court below was clearly correct both in its approach to answering that question and in the answer itself. It asked: could the Ninth Circuit have held the patent valid without deciding the fraud issue adversely to Smith? It answered: "the Ninth Circuit necessarily must have rejected all grounds upon which Smith challenged validity and sought to uphold the contrary decision of the district court," (A 8; 759 F.2d at 1577), and one of those grounds was fraud. In short, it was not possible to properly hold the patent valid without deciding and rejecting the fraud defense.

Nothing in *Mutual Life Insurance Co. v. Hill,* 193 U.S. 551 (1904) is to the contrary. As the court below pointed out, (A 9; 759 F. 2d at 1577) "All the Supreme Court stated was that 'a judgment of reversal is not necessarily an adjudication by the appellate court of any other than the questions in terms

discussed and decided.' " Other questions may or may not have been decided depending on the circumstances. Here the circumstances, the holding of validity, by clear implication decided the fraud issue. Moreover, the Ninth Circuit remanded the case solely for purposes of determining the scope of the relief.

Smith asserts (pp. 13-14) that there is something unclear about the Ninth Circuit's holding that the '928 patent is "valid", requiring the aid of a "soothsayer or psychiatrist" to unravel what was meant. In fact there is no mystery. As the court below observed, in responding to this same argument,

> Although the language the Ninth Circuit used may have been infelicitous, its meaning was clear. By reversing the district court's determination of invalidity and remanding for further proceedings on the reinstated counterclaim, the Ninth Circuit, as we stated in Smith II, "removed any question about the validity and enforceability of the patent." (A 9; 759 F.2d at 1577).

For those uninitiated in the niceties of the patent law, the Federal Circuit has recently reproved the lower courts against declaring a patent "valid," suggesting that a more accurate declaration is that the patent has not been proven invalid. The distinction was first pronounced and explained in 1983 in *Environmental Designs, Ltd. v. Union Oil Company of California,* 713 F.2d 693, 699 (Footnote 9) (Fed. Cir. 1983),

> It is not necessary that a district court hold a patent valid. In an appropriate case, it is necessary to hold only that the challenger of a patent's validity failed to carry his burden of proving invalidity. 35 U.S.C. § 282. The result is the same, but the latter holding more accurately dramatizes that it, like all holdings, is based on the record of the case at hand. The latter holding also avoids concern that a patent held valid may be held invalid on a different record in another case.

There has never been any confusion as what the Ninth Circuit meant or what it did. It very simply ruled upon and rejected each of Smith's defenses to the validity of the patent.

Smith next contends that the Federal Circuit should have reversed because the district court had applied by analogy the "newly discovered evidence" standard of Rule 60(b)(2) in determining whether Smith had presented "substantially different evidence" sufficient to bar the application of the doctrine of law of the case. Smith asserts that the approach of the court below was improper but neither cites authority to the contrary nor suggests what a proper approach would be. There is no showing of a conflict between the decision of the court below and other courts. Nor does Smith offer any contrary suggestion as to what the criterion or standard for determining "substantially different evidence" is or what it ought to be.

At best Smith's argument is that Rule 60(b)(2) is not binding except where there is a "final judgment." But the court below did not view the application of the rule as mandatory, rather it was viewed as a serviceable guideline in analyzing whether any "substantially different evidence" was proffered. The analogy to Rule 60 is a sound one. As the court below observed, the objective of each of Rule 60 and the law of the case doctrine is the same—"to provide finality to judicial decisions." (A 7 and 13; 759 F.2d at 1576 and 1579).

The analogy is even more compelling in patent cases. There the case is deemed final for purposes of an appeal after liability is determined but before damages are tried. Under the longstanding statutory provisions, an appeal is allowed in patent infringement cases which are "final except for an accounting." 28 USC § 1292(c)(2).

Finally, Smith argues that the public interest in the legitimacy of patents is so overwhelming as to bar the doctrine of the law of the case where there is an allegation of fraud on the Patent Office. Again Smith shows no conflict between the decisions below and those of other courts. It asks this court to plow new ground untouched by the lower courts.

Smith's reliance on *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944) is misplaced. There the patentee was seeking to enjoin acts beyond the legitimate scope of the patent. The Supreme Court refused to participate and thereby place its "imprimatur on [such] a scheme." *Id.* at 670. To do so ". . . would aid in the consummation of a conspiracy to expand a patent beyond its legitimate scope. But patentees and licensees cannot secure aid from the court to bring such an event to pass 'unless it is in accordance with policy to grant that help.' " *Id.*

Here, the courts below have heard, decided and rejected Smith's fraud allegation and are simply declining to reopen these factual issues. The Petition should be denied.

Respectfully submitted,

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by _____

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